



FEBRUARY 6, 2015

Highlights

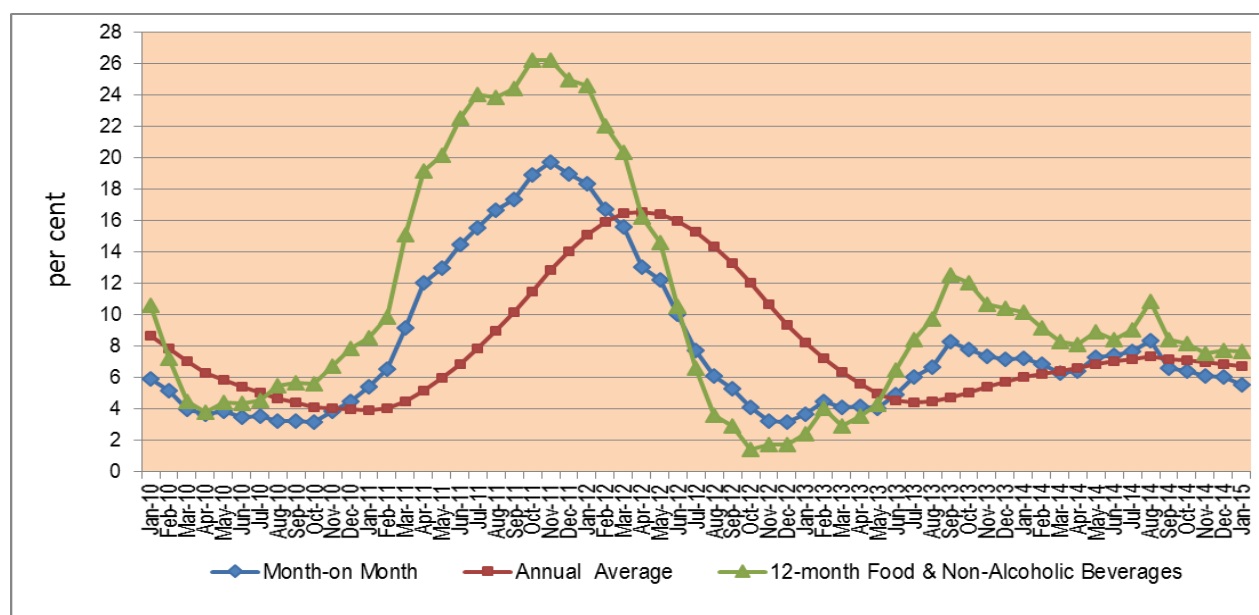
Overall 12-month inflation eased from 6.02 percent in December 2014 to 5.53 percent in January 2015. Non-food non-fuel inflation also eased from 3.65 percent in December 2014 to 3.51 percent in January 2015.

Liquidity in the money market improved during the week ending February 4, 2015, on account of Government payments and redemption of Treasury bills, which more than offset withdrawals through payment of taxes to the Government. However, the average interbank rate rose to 8.63 percent in the week ending February 4, 2015 from 7.78 percent recorded in the previous week.

Capital markets recorded strong performance in the week ending February 5, 2015, with nearly all leading market indicators for both bonds and equities' segments on the increase.

Inflation

Overall 12-month inflation eased from 6.02 percent in December 2014 to 5.53 percent in January 2015. (Chart A). The decline in the overall inflation in January 2015 is largely attributed to lower fuel inflation. Fuel inflation eased from 5.98 percent in December 2014 to 4.53 percent in January 2015 reflecting a fall in the average retail price of kerosene, diesel and petrol while food inflation declined from 7.54 percent in December 2014 to 7.38 percent in January 2015 reflecting a fall in the average retail price of maize and fresh produce. The 12-month change in the 'food and non-alcoholic beverages' index therefore declined from 7.71 percent in December 2014 to 7.67 percent in January 2015. Non-food non-fuel inflation also eased from 3.65 percent in December 2014 to 3.51 percent in January 2015.

CHART A: SUMMARY REPORT ON GENERAL INFLATION


Source: Central Bank of Kenya

Monetary Policy Operations

Liquidity in the money market improved during the week ending February 4, 2015, on account of Government payments and redemption of Treasury bills, which more than offset withdrawals through payment of taxes to the Government. The Central Bank liquidity management stayed out of the market as the interbank rate edged up to the Central Bank Rate (CBR). Reserve money averaged Ksh 353.0 billion during the week and was Ksh 14.3 billion above target (Table 1).

TABLE 1: INTERBANK LIQUIDITY FLOWS AND OPEN MARKET OPERATIONS (KSH BILLION)

| | 29-Jan-15 | 30-Jan-15 | 2-Feb-15 | 3-Feb-15 | 4-Feb-15 | Total |
|---|-------------|-------------|-------------|-------------|-------------|----------------|
| Liquidity Flows | | | | | | |
| Total liquidity injection | 16.5 | 14.2 | 14.5 | 14.4 | 0.7 | 60.3 |
| Repos Maturities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reverse Repo Purchases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Term Auction Deposit maturities | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 |
| T/bills redemptions | 0.0 | 0.0 | 7.4 | 0.0 | 0.0 | 7.4 |
| T/bonds redemptions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Govt payments | 15.1 | 14.1 | 6.5 | 13.7 | 0.7 | 50.1 |
| Total liquidity reduction | 4.8 | 2.8 | 7.0 | 2.5 | 4.7 | 21.9 |
| T/bills (Primary issues) | 0.0 | 0.0 | 4.6 | 0.0 | 0.0 | 4.6 |
| Tbonds Sales | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repos | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Term Auction Deposit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transfer from Banks - Taxes | 3.4 | 2.7 | 1.7 | 1.8 | 4.7 | 14.4 |
| Net liquidity injection (+)/Withdrawal (-) | 11.6 | 11.4 | 7.5 | 11.8 | -4.0 | 38.4 |
| Open Market Operations Outcome | | | | | | |
| Posted Amount | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Realised Amount | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repo (-) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Term Auction Deposits (-) | 0.0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reverse Repo (+) | 0.0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserve Money Position | | | | | | Average |
| Reserve money (actual) | 337.1 | 348.5 | 354.9 | 364.3 | 360.3 | 353.0 |
| Reserve money target | 338.3 | 338.3 | 339.0 | 339.0 | 339.0 | 338.7 |
| Deviation from target | -1.2 | 10.2 | 15.9 | 25.3 | 21.3 | 14.3 |
| Commercial banks excess reserves Exc(+)/ Short(-) | 4.0 | 14.1 | 20.2 | 28.4 | 23.4 | 18.0 |
| Cash outside bank Exc(+)/ Short(-) | -6.0 | -3.9 | -3.2 | -0.6 | -2.1 | -3.2 |

Source: Central Bank of Kenya

Interbank Rates

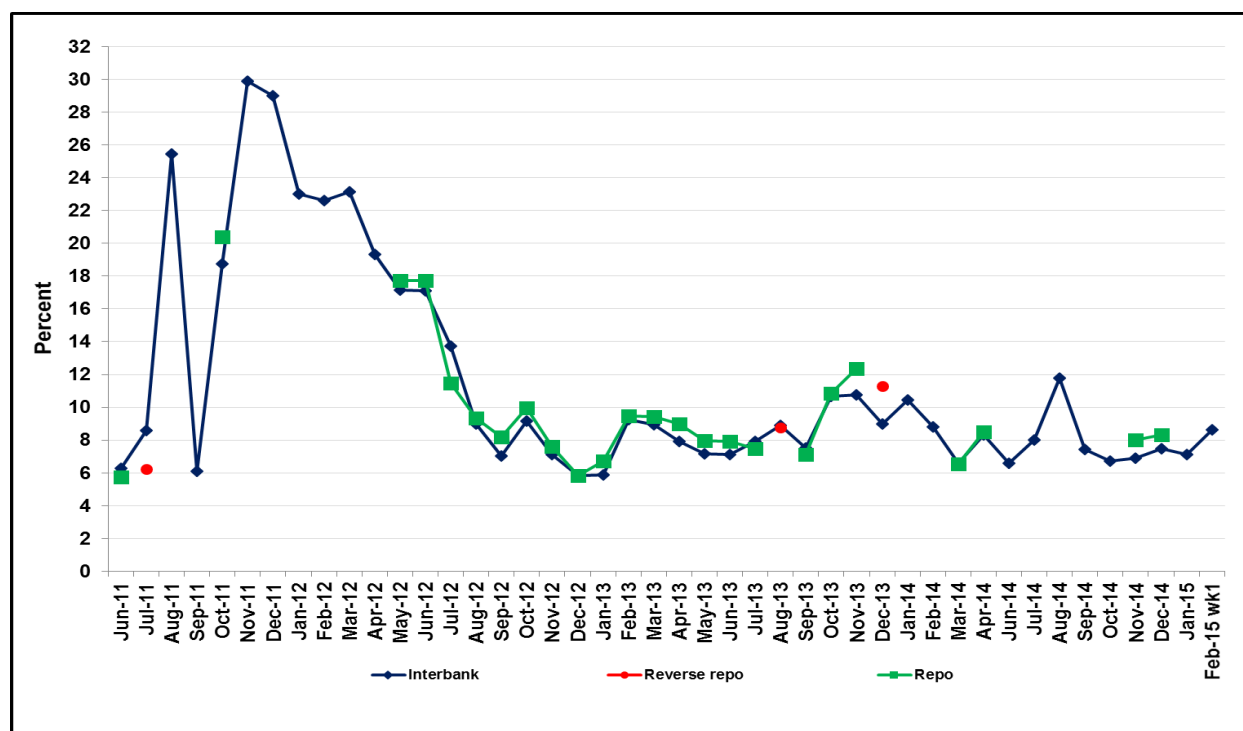
The average interbank rate rose to 8.63 percent in the week ending February 4, 2015 from 7.78 percent recorded in the previous week. The volume transacted increased to Ksh 22.82 billion from Ksh 22.73 billion traded in the previous week, while the number of deals decreased to 61 from 64 deals (Table 2 and Chart B).

TABLE 2: OPEN MARKET OPERATIONS (KSH BILLION)

| Date | Number of deals | Value (Ksh M) | Average Interbank Rate (%) |
|--|-----------------|---------------|----------------------------|
| 22-Jan-15 | 48 | 14,070 | 7.33 |
| 23-Jan-15 | 65 | 25,127 | 7.42 |
| 26-Jan-15 | 64 | 23,217 | 7.73 |
| 27-Jan-15 | 75 | 23,440 | 8.08 |
| 28-Jan-15 | 68 | 27,797 | 8.33 |
| January 22, 2015 - January 28, 2015 | 64 | 22,730 | 7.78 |
| 29-Jan-15 | 71 | 27,419 | 8.50 |
| 30-Jan-15 | 72 | 23,720 | 8.64 |
| 2-Feb-15 | 62 | 23,267 | 8.81 |
| 3-Feb-15 | 51 | 22,281 | 8.75 |
| 4-Feb-15 | 51 | 17,420 | 8.44 |
| January 29, 2015 - February 4, 2015 | 61 | 22,821 | 8.63 |

Source: Central Bank of Kenya

CHART B: STRUCTURE OF INTEREST RATES

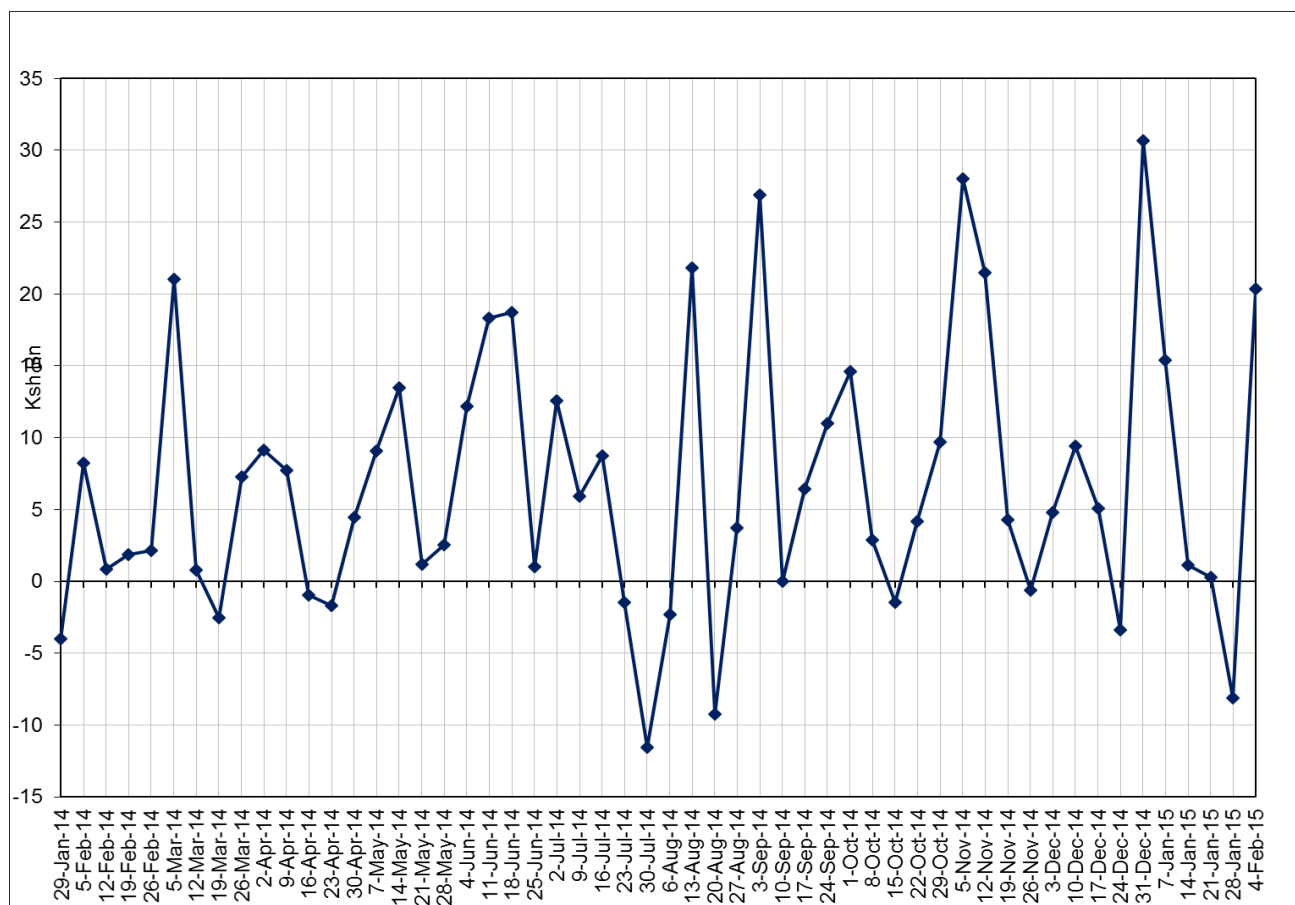


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks' clearing account during the week ending February 4, 2015 recorded a surplus of Ksh 20.3 billion in relation to the cash reserve requirement of 5.25 percent (or Ksh 119.0 billion) compared with a deficit of Ksh 8.13 billion recorded in the previous week (Chart C). The increase in the clearing account balance is largely attributed to Government payments.

CHART C: WEEKLY AVERAGE DEVIATION FROM CRR IN THE CLEARING ACCOUNT



Source: Central Bank of Kenya

Kenya Shilling Exchange Rate

The Kenya Shilling exchange rate depicted mixed performance against major international and regional currencies during the week ending February 5, 2015. The Shilling strengthened against the US Dollar but weakened against the Pound Sterling, the Euro and the Japanese Yen. In the EAC region, the Kenya Shilling strengthened against the Uganda Shilling and the Burundi Franc but weakened against the Tanzania Shilling and remained unchanged to the Rwanda Franc during the same period (Table 3).

TABLE 3: KENYA SHILLING EXCHANGE RATE

| | US dollar | Sterling Pound | Euro | Japanese Yen | USHS | TSHS | RWF | BIF |
|---------------------------|--------------|----------------|---------------|--------------|--------------|--------------|-------------|--------------|
| 23-Jan-14 | 91.74 | 137.49 | 103.85 | 77.45 | 31.29 | 19.95 | 7.51 | 17.11 |
| 26-Jan-14 | 91.75 | 137.72 | 102.69 | 77.84 | 31.06 | 19.89 | 7.51 | 17.11 |
| 27-Jan-14 | 91.69 | 138.55 | 103.12 | 77.59 | 31.19 | 19.89 | 7.51 | 17.12 |
| 28-Jan-14 | 91.67 | 139.04 | 104.14 | 77.75 | 31.14 | 19.89 | 7.52 | 17.06 |
| 29-Jan-14 | 91.55 | 138.75 | 103.43 | 77.80 | 31.26 | 19.58 | 7.51 | 16.99 |
| 23 -29 Jan 2015 | 91.68 | 138.31 | 103.45 | 77.68 | 31.19 | 19.84 | 7.51 | 17.08 |
| 30-Jan-14 | 91.67 | 138.42 | 103.90 | 77.79 | 31.20 | 19.46 | 7.52 | 17.13 |
| 2-Feb-14 | 91.69 | 138.23 | 103.59 | 77.94 | 31.25 | 19.25 | 7.50 | 17.01 |
| 3-Feb-14 | 91.67 | 137.71 | 103.82 | 78.33 | 31.18 | 19.58 | 7.51 | 17.13 |
| 4-Feb-14 | 91.59 | 138.81 | 105.06 | 77.85 | 31.28 | 19.65 | 7.51 | 17.14 |
| 5-Feb-14 | 91.56 | 139.18 | 103.83 | 78.16 | 31.31 | 19.93 | 7.53 | 17.15 |
| 30 Jan -2 Feb 2015 | 91.64 | 138.47 | 104.04 | 78.01 | 31.24 | 19.58 | 7.51 | 17.11 |

Source: Central Bank of Kenya

The Nairobi Securities Exchange

Equity market segment leading indicators except equity turnover ended the week of February 5, 2014 with gains compared to the previous week. Similar positive performance was also recorded in the bonds market segment.

Equities Market

The improved performance at NSE saw the NSE 20 Share Index and NASI increase by 1.74 percent and 1.9 percent respectively. Shareholders' wealth measured by market capitalization added Ksh 44.46 billion compared to the previous week. However, equity turnover was 3 percent down on account of low prices of some counters (Table 4).

TABLE 4: KEY WEEKLY MARKET STATISTICS

| INDICATOR | 18-Dec-14 | 23-Dec-14 | 31-Dec-14 | 8-Jan-15 | 15-Jan-15 | 22-Jan-15 | 29-Jan-15 | 5-Feb-15 | Wkly Change |
|----------------------------------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|-------------|
| NASI 100= 2008 | 157.56 | 159.10 | 162.89 | 161.78 | 165.47 | 165.17 | 165.23 | 168.37 | 1.90% |
| NSE 20 Share Index 100= 1996 | 4,957.52 | 4,907.27 | 5,112.65 | 5,097.80 | 5,201.61 | 5,172.88 | 5,194.21 | 5,284.41 | 1.74% |
| Number of Deals | 10,184 | 5,134 | 6,492 | 7,592 | 9,129 | 10,331 | 10,741 | 10,911 | 1.58% |
| Total Shares Traded | 222.64 | 147.11 | 170.02 | 65.80 | 80.56 | 100.33 | 132.53 | 149.92 | 13.12% |
| Equity Turnover (Ksh. Millions) | 7,566.44 | 4,900.28 | 9,638.54 | 1,733.90 | 1,728.70 | 2,216.67 | 3,291.38 | 3,192.25 | -3.01% |
| Market Capitalization (Ksh. Bn.) | 2,224.56 | 2,246.43 | 2,300.05 | 2,285.52 | 2,337.57 | 2,327.80 | 2,334.08 | 2,378.54 | 1.90% |
| Bonds Turnover (Ksh. Millions) | 8,699.40 | 10,376.40 | 5,771.05 | 5,963.08 | 13,652.08 | 10,204.90 | 6,966.66 | 9,335.46 | 34.00% |
| FTSE NSE Kenya 15 Index | 211.38 | 208.57 | 217.76 | 213.13 | 219.68 | 217.12 | 220.55 | 223.25 | 1.22% |
| FTSE NSE Kenya 25 Index | 212.82 | 209.65 | 218.70 | 214.16 | 220.74 | 218.99 | 222.39 | 224.68 | 1.03% |
| FTSE NSE Bond Index | 93.52 | 92.90 | 93.31 | 93.56 | 93.66 | 94.33 | 93.81 | 94.48 | 0.71% |

Source: Nairobi Securities Exchange

FTSE NSE Kenya Index Series and Most Active Sectors

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, closed the week 1.22 percent higher, while the FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the NSE was 1.03 percent higher compared to the previous week. Similarly, the FTSE Government Bond Index closed the week 0.71 percent higher, reflecting slight decline in the secondary market yields.

Manufacturing and Allied, Telecommunication and Technology and Banking sectors were the top three most active sectors, representing 25.2 percent, 24.2 percent and 24.0 percent of the total shares traded, respectively. Automobiles and Accessories sector was the least active with 27,600 shares traded in the week.

The Bond Market

The bond's turnover increased by 34 percent to Ksh 9,335.46 million from Ksh 6,966.66 million in the previous week. The number of deals improved to 115 from the 97 deals traded last week. This may be explained by investors' liquidating old stock to buy new bonds (2-year and 10-year reopening) on offer in the primary market.

TABLE 5: PERFORMANCE OF TREASURY BILL AUCTIONS

| 91-Day Treasury Bills | | | | | | | | |
|-------------------------------|-----------|-----------|-----------|----------|------------|-------------|-----------|----------|
| Date of Auction | 18-Dec-14 | 24-Dec-14 | 31-Dec-14 | 8-Jan-15 | 15-Jan-15 | 22-Jan-15 | 29-Jan-15 | 5-Feb-15 |
| Amount offered (Ksh M) | 3,000.0 | 3,000.0 | 3,000.0 | 3,000.0 | 3,000.0 | 3,000.0 | 3,000.0 | 2,000.0 |
| Bids received (Ksh M) | 1,625.1 | 767.2 | 3,483.0 | 1,350.7 | 4,169.2 | 878.8 | 1,259.1 | 849.6 |
| Amount Accepted (Ksh M) | 1,625.1 | 767.2 | 3,483.0 | 1,350.2 | 2,848.4 | 878.8 | 1,252.2 | 849.6 |
| Maturities (Ksh M) | 2,272.3 | 4,458.6 | 3,375.8 | 1,252.3 | 2,464.7 | 652.7 | 455.1 | 3,638.2 |
| Average interest Rate (%) | 8.513 | 8.571 | 8.532 | 8.529 | 8.601 | 8.684 | 8.572 | 8.582 |
| 182-Day Treasury Bills | | | | | | | | |
| Date of Auction | 17-Dec-14 | 24-Dec-14 | 31-Dec-14 | 7-Jan-15 | 14-Jan-15 | 21-Jan-15 | 28-Jan-15 | 4-Feb-15 |
| Amount offered (Ksh M) | 4,000.0 | 4,000.0 | 4,000.0 | 4,000.0 | 4,000.0 | 4,000.0 | 4,000.0 | 4,000.0 |
| Bids received (Ksh M) | 1,089.9 | 1,998.9 | 2,427.1 | 4,389.9 | 4,645.5 | 5,168.9 | 2,612.3 | 5,031.3 |
| Amount Accepted (Ksh M) | 1,089.9 | 1,523.8 | 2,427.1 | 4,094.2 | 3,933.1 | 3,266.0 | 1,453.5 | 4,193.2 |
| Maturities (Ksh M) | 2,873.2 | 4,262.8 | 4,108.2 | 1,810.6 | 4,095.8 | 3,224.3 | 4,869.9 | 430.7 |
| Average interest Rate (%) | 9.517 | 9.855 | 10.048 | 10.200 | 10.237 | 10.282 | 10.334 | 10.362 |
| 364-Day Treasury Bills | | | | | | | | |
| Date of Auction | 17-Dec-14 | 24-Dec-14 | 31-Dec-14 | 7-Jan-15 | 14-Jan-15 | 21-Jan-15 | 28-Jan-15 | 4-Feb-15 |
| Amount offered (Ksh M) | 5,000.0 | 5,000.0 | 5,000.0 | 5,000.0 | 5,000.0 | 5,000.0 | 5,000.0 | 5,000.0 |
| Bids received (Ksh M) | 4,888.9 | 1,546.9 | 3,371.3 | 5,357.9 | 6,518.9 | 4,344.1 | 2,346.3 | 5,069.6 |
| Amount Accepted (Ksh M) | 3,988.5 | 1,370.5 | 2,696.0 | 4,457.4 | 4,721.4 | 2,067.3 | 1,896.7 | 2,729.3 |
| Maturities (Ksh M) | 111.9 | 80.8 | 3,119.3 | 940.3 | 3,184.6 | 1,624.5 | 2,510.9 | 711.9 |
| Average interest Rate (%) | 10.388 | 10.575 | 10.687 | 10.679 | 10.707 | 10.825 | 10.984 | 10.987 |
| Treasury Bonds | | | | | | | | |
| Date of Auction | | | | | 21-Jan-15 | | | |
| Tenor | | | | | 5 year Fxd | 20 Year Fxd | | |
| Amount offered (Ksh M) | | | | | 20,000.0 | | | |
| Bids received (Ksh M) | | | | | 14,112.1 | 12,835.9 | | |
| Amount Accepted (Ksh M) | | | | | 8,029.8 | 12,358.6 | | |
| Maturities (Ksh M) | | | | | 0.0 | 0.0 | | |
| Average interest Rate (%) | | | | | 11.6 | 13.6 | | |

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

| | 28th November 2014 | 5th December 2014 | 11th December 2014 | 19th December 2014 | 24th December 2014 | 2nd January 2015 | 9th January 2015 | 16th January 2015 | 23rd January 2015 | 30th January 2015 |
|---------------------------------------|--------------------------|-------------------------|--------------------------|--------------------------|--------------------------|------------------------|------------------------|-------------------------|-------------------------|-------------------------|
| 1. Treasury Bills (Excluding Repos) | 302.00 | 298.02 | 299.40 | 294.39 | 296.33 | 291.40 | 289.91 | 294.84 | 296.75 | 299.29 |
| (As % of total securities) | 24.05 | 23.81 | 23.89 | 23.58 | 23.68 | 23.38 | 23.29 | 23.59 | 23.71 | 23.45 |
| 2. Treasury Bonds | 953.70 | 953.70 | 953.70 | 953.97 | 955.00 | 955.00 | 955.00 | 955.00 | 955.00 | 977.08 |
| (As % of total securities) | 75.95 | 76.19 | 76.11 | 76.42 | 76.32 | 76.62 | 76.71 | 76.41 | 76.29 | 76.55 |
| 3. Total Securities (1+2) | 1,255.70 | 1,251.71 | 1,253.10 | 1,248.36 | 1,251.33 | 1,246.40 | 1,244.91 | 1,249.84 | 1,251.75 | 1,276.37 |
| 4. Overdraft at Central Bank | 16.49 | 18.46 | 17.62 | 23.58 | 30.08 | 29.57 | 31.55 | 25.31 | 25.47 | 27.49 |
| 5. Other Domestic debt* | 30.01 | 30.00 | 30.01 | 29.74 | 30.00 | 29.45 | 30.63 | 30.42 | 30.41 | 30.42 |
| 6. Gross Domestic Debt (3+4+5) | 1,302.20 | 1,300.17 | 1,300.73 | 1,301.68 | 1,311.41 | 1,305.43 | 1,307.09 | 1,305.58 | 1,307.63 | 1,334.28 |

* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and Tax Reserve Certificates.

Source: Central Bank of Kenya

TABLE 7: COMPOSITION OF GOVERNMENT DEBT BY INSTRUMENT

| | 28-Nov-14 | 5-Dec-14 | 12-Dec-14 | 19-Dec-14 | 26-Dec-14 | 2-Jan-15 | 9-Jan-15 | 16-Jan-15 | 23-Jan-15 | 30-Jan-15 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Treasury bills (Excluding Repos) | 23.2 | 22.9 | 23.0 | 22.6 | 22.6 | 22.3 | 22.2 | 22.6 | 22.7 | 22.4 |
| Treasury bonds | 73.2 | 70.5 | 73.3 | 73.3 | 72.8 | 73.2 | 73.1 | 73.1 | 73.0 | 73.2 |
| CBK Overdraft to Govt | 1.3 | 1.4 | 1.4 | 1.8 | 2.3 | 2.3 | 2.4 | 1.9 | 1.9 | 2.1 |
| Other domestic debt | 2.3 | 5.2 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Central Bank of Kenya

TABLE 8: COMPOSITION OF GOVERNMENT DEBT BY HOLDER

| | 5-Dec-14 | 12-Dec-14 | 19-Dec-14 | 26-Dec-14 | 2-Jan-15 | 9-Jan-15 | 16-Jan-15 | 23-Jan-15 | 30-Jan-15 |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Banking Institutions | 53.7 | 53.7 | 54.0 | 54.3 | 54.2 | 54.1 | 54.2 | 54.1 | 54.0 |
| Insurance Companies | 9.9 | 9.9 | 9.9 | 9.9 | 9.9 | 9.9 | 9.9 | 9.8 | 9.8 |
| Parastatals | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Pension funds | 24.3 | 24.3 | 24.0 | 23.9 | 23.8 | 23.8 | 23.9 | 23.9 | 23.9 |
| Other investors | 9.3 | 9.3 | 9.3 | 9.2 | 9.4 | 9.4 | 9.3 | 9.4 | 9.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Central Bank of Kenya

TABLE 9: OFFICIAL FOREIGN RESERVES US\$ MILLION (USABLE)

| | 11-Dec-14 | 18-Dec-14 | 24-Dec-14 | 31-Dec-14 | 8-Jan-15 | 15-Jan-15 | 22-Jan-15 | 29-Jan-15 | 5-Feb-15 |
|--|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|
| 1. CBK Usable Foreign Exchange Reserves (USD Mn)* | 6,789 | 6,731 | 7,515 | 7,425 | 7,344 | 7,295 | 7,247 | 7,189 | 7,178 |
| 2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)** | 4.43 | 4.39 | 4.90 | 4.85 | 4.74 | 4.71 | 4.68 | 4.64 | 4.63 |

*Excludes Encumbered Reserves

**Based on 36 months average of imports of goods and non-factor services

Source: Central Bank of Kenya